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Smith, John Francis

Money and a measure of value

Oak Lawn, R.I.

1880

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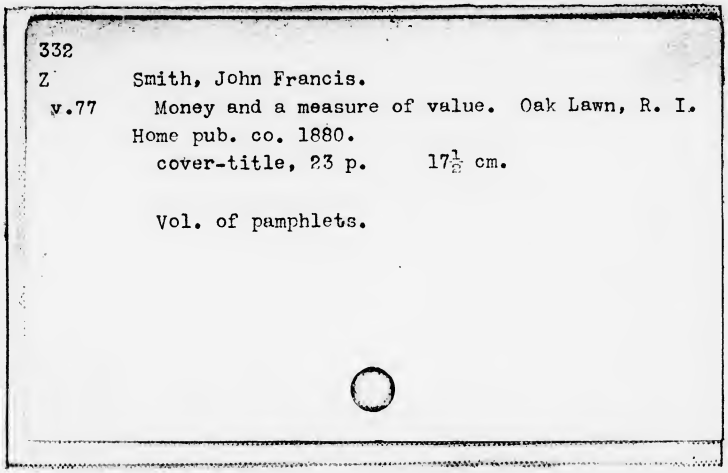
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Smith, John Francis.
Money and a measure of value. Oak Lawn, R. I. Home pub. co. 1880.
cover-title, 23 p. 17½ cm.
Vol. of pamphlets.

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TECHNICAL MICROFORM DATA

FILM SIZE: 35MM REDUCTION RATIO: 9:1 IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 11-12-97 INITIALS: PB

TRACKING # : 29666

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MONEY,

AND A

Measure of Value.

BY JOHN FRANCIS SMITH.

OAK LAWN, R. I.
HOME PUBLISHING COMPANY.
1880.

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Money, and a Measure of Value.

BY JOHN FRANCIS SMITH.

Division of Labor.

A man who lives apart from all other persons exercises, of course, by turns, every occupation essential to his existence then and there. He builds his house; cooks his food; grows his grain and vegetables; makes his clothing; etc. But in societies, however sparse, there is generally a more or less distinct separation of industrial operations into departments, or trades, in each of which, as in carpentering, shoemaking, farming, tailoring, and the like, certain persons exclusively employ themselves. This separation of industrial operations political economists have designated Division of Labor.

Division of Labor, as a system, is a natural one: that is, it exists not in consequence of artificial prear-

rangement, but is the result of causes spontaneously active and inherent in human nature and relations. It exists on compulsion. The compelling causes may be grouped as Competition. Certain individuals adopted and adopt special employments from choice. Such choice implies a bent or mental constitution in the person making it likely to favor the attainment of special proficiency in the employment chosen. When to this is added the facility which usually results from the practice of a particular industry, maximum skill and minimum cost, or a degree of excellence and cheapness which can be attained in no other way, are secured.

Trade.

Out of Division of Labor springs Trade. The workman in a particular industry must have the products of other industries as well as those of his own. The carpenter needs for food products of the farmer; shoes from the shoemaker; clothing from the tailor; etc. These, in turn, must have houses, the product of the carpenter. The man who does nothing but make points to pins must depend upon the direct labor of others for everything he needs except pin points. Obviously, the more minute the Division of Labor, the longer the list of articles, necessary alike to all, which each must procure by Trading. Hence, the minuter the Division of Labor, other things equal, the greater the activity of Trade.

Barter in Kind.

Since each member of the industrial community is

forced by competition to leave the production of certain articles and the performance of certain services indispensable or desirable to himself to become the business of others, the primary and legitimate object of Trade evidently is the acquisition by each of those articles or services which each would have made or performed for himself if not so forced. Hence, the first form of Trade naturally was direct exchange of commodities and services, or Barter in Kind.

It is scarcely possible to overestimate the vastness of the advance in social well-being through Barter, over what was possible while each was "Jack at all trades", and so proverbially unskilful at all of them. Measured however by the better methods of exchange of to-day Barter was a clumsy device of people just emerging from barbarism. In Barter, if one wanted, for example, shoes, it was necessary both to find another who had shoes to dispose of and who also wanted the precise article which one wished to exchange for them—a coincidence likely to be costly in time and labor to find.

Barter for an Equivalent.

A step in advance of Barter in Kind, or for the precise article wanted, was Barter for an Equivalent of such article in cost (in labor) and usefulness, and to be rebartered for the thing actually wanted for direct consumption or utility. Articles of prime necessity or utility, as foods, implements, would in general be esteemed such equivalents.

Specialized Equivalents, or Money.

The next step in advance of Barter for an Equiva-

lent was barter for a Specialized Equivalent, or an article the use of which, for bartering, had become common, probably through its being suited to the situation, circumstances, tastes, habits or particular industries of the place or people. Whips, Cigars, onions, fish, and other articles, as severally used locally, at present, in different sections of the United States, afford examples of Specialized Equivalents.

Such Specialized Equivalents, duly installed by custom or law, at the time and place are Money, whatever their nature or substance.

Money, therefore, may be succinctly defined as Any customary or legal Tender for Purchase and Debt.

Gold and Silver as Specialized Equivalents.

Gold, silver and gems, as originally used, were such Specialized Equivalents. Susceptible of being easily wrought, and of a high degree of lustre, they commended themselves by their ministry to the taste for personal adornment so characteristic of the childhood of the race. They were valued as of immediate and direct utility. They were therefore always and everywhere acceptable in exchange, and hence conspicuously convenient as an ever ready equivalent therein when nomadic habits, frequent feuds and wars, and generally precarious living, forbade commercial credits. A thousand incidents or accidents comparatively unknown to more settled times might prevent the parties to a trade from ever meeting again. Credit did not exist because it was impossible. And a payment, under such circumstances, had to be a transference of intrinsic value.

If the payment was made in something answering to our idea of money, that value had to reside in the substance of the money itself. Gold and silver, as then used and esteemed, by their condensed value and comparative convenience of portability, acquired an estimation as instruments for effecting exchanges which has projected itself into the present, where it still survives, long after the conditions which originally formed its basis have ceased to exist,—indeed, have been reversed. The certainty that gold and silver could be bartered at any time for an equivalent value in other property of their cost in exchange, made them "current money with the merchant", and with the people generally, long before the existence of such a degree of public order as rendered extra-tribal or communal credit, or credit money, possible. And here we note the historic origin of the observed and as if instinctive tendency of individuals, at this day, to recur, in times of public danger, to intrinsic value money. Such times in some degree create exigencies similar to those normal ones of the earlier period, which made direct value or utility in the material of the money essential.

A Credit Element Inherent in Money.

As civilization advanced, and settled government took the place of the temporary rule of petty chiefs; and especially as inter-tribal and international intercourse became common, and assumed a good degree of regularity, commercial credit began. This newer order of things impressed itself on the current money. Payments gradually ceased to be transferences of intrinsic

value to the nominal amount. The pieces took on the character of tokens or counters. Indeed the mere act of raising any substance or thing, as gold or silver, by custom, or by authority, to the rank of money, was to extend the range of its utility, and hence to confer upon it an artificial or extra-intrinsic value.

The coins of commerce became representative, symbolic. Just as a little earth and water tendered to an advancing conqueror betokened the surrender of the lands and waters of vast territories, so a thin flake, or a diminutive nugget of gold or silver came to stand for an amount of metal and intrinsic value in excess of its own. Men had begun to accept, as we do now, whatever would "pass" *as money*, without a thought of utilizing it *as material*. The history of successive diminutions of the weight or fineness of the current coins, (known as "debasements", and for which rulers have incurred opprobrium), attests this. Such diminutions were at once result and proof of a higher civilization and better secured public order which rendered intrinsic value in money proportionately non-essential. Credit had taken the place of an amount of intrinsic value. And so, at a later period, the bank notes which began to circulate, were a money in which, in practice, credit was substituted for intrinsic value, the difference being that, in the case of the notes, the substitution of credit was entire.

Intrinsic Value in Money destined to be Eliminated.

The suggestion to demonetize gold and silver and rely upon paper is, historically, in line with the past development of money. Its consummation would hardly be more than a measure of relief from a system now vital scarcely otherwise than in its costs, vexations and adaptedness to defeat the purpose of money.

Gold and silver were originally adopted or took their places as material of money because esteemed valuable. They are now esteemed valuable chiefly because they are material of money. Demonetization of them would speedily reveal how small their real value is as compared with the value traditionally ascribed to them.

The intrinsic value quality in money, once indispensable, is now an anachronism, as the wearing of a sword, once necessary for personal defence and safety, would now be in one of our peaceful New England towns.

The elimination of intrinsic value from money has proceeded, as improved government and increasing security of person and property permitted, in accordance with economic law: Diminished cost of exchange with a money of diminished intrinsic value. The case is not merely analogous to, but is, that of like service at dimlnished cost through an improved tool or machine. The cheaper the tool, its efficiency being equal to that of the dearer one, the cheaper the product or service of the tool, is axiomatic as to the tool money as well as to other tools.

In the struggle for commercial and industrial existence between nations and communities, that one survives, other things equal, whose money is best adapted to cheap exchange. Under the influence of this law of

economy in exchange money will at last be made only of materials practically without intrinsic value.

Intrinsic value money once admirable in theory and practice; now, chiefly a "survival".

It is obvious that any money is valuable only as it is either of intrinsic value, or can be exchanged for intrinsic value, as for goods, and the like: the essential thing being intrinsic value itself and not any particular substance or thing in which it resides. Now, the early idea of money was *concentrated* value, for convenience of portability, concealment, etc. Gold and silver, as used and esteemed at the time, were the convenient substances in which value was most concentrated; and since, as we have seen, intrinsic value in money was a necessity of the times, use of them as money or money materials was admirable. "The merchant" of that period when receiving money of gold or silver felt that he was getting a value equivalent to that of the goods parted with in the substance of the money itself. He had merely bartered one species of property, possibly of great bulk, for another in which great value was concentrated in small compass.

The present value of the bullion in the present coinages of the world is so inconsiderable relatively to the conventional value of the coins that we do little more than "go through the motions" of transferring intrinsic value when we make payments with them. Such "motions" are a "survival", much as the polite bow is a survival of the act of the captive, in a ruder age, who thus put himself in a posture to have his head cut off;

or as putting off one's glove before hand-shaking is a survival from the precaution of the old time steel-gloved warrior who otherwise would have injured the hand he clasped. The important element, therefore, in any question of substituting credit in larger measure, or wholly, for such intrinsic value as yet remains in the coinages of the world relates rather to conventional estimate of their value than to such value itself: to popular prejudices rather than the intrinsic worth of the money. It should be remarked, however, that where the prejudices of vast populations are involved a fiction may be as important as a fact in the determination of a question of expediency or statesmanship.

There is no absolutely best money. Relatively, the best money is that which is best adapted to the purposes for which money, at the time, place and under the circumstances, is to be used. Whether the material of the money should be gold, silver, copper, nickel, paper, or some other, and if possible, cheaper, substance, is a question of adaptation to a people, to circumstances,—to the exigencies of the case. That it was once best that the money be of gold and silver is not conclusive why, at a later time, in another place or under changed circumstances, it should not be of something else, as of paper. Indeed, fitness to particular conditions implies unfitness should the conditions be changed.

A Money for To-day should be a Measure of Value.

The essential thing in a money, to-day, it will be admitted, is efficiency as a tool, or instrument to make

commercial exchanges with. As just commercial exchanges involve the ascertainment of the values of the things exchanged, with a view to comparison and equation, their values must be measured. The tool—money—with which their values is to be determined should, therefore, be a measure of value.

A Measure of Value must have value.

The measurement of any thing is the ascertainment of its degree, quantity or amount as compared with a fixed degree, quantity or amount of a thing of the same kind as itself. Time is measured by determinate amounts of time, as hours, years, etc; weight, by determinate amounts of weight, as pounds, tons, etc. The clock must have exactly one hour in which to measure an hour; and the small weight of the steelyard and the thing to be weighed must be in equilibrium (weigh equal) in order to measure ponderability. So value can be measured only by determinate amounts of value. Hence: A measure of value must have value—not, however, necessarily intrinsic value.

The value of a Measure of Value should be Definite and Unchanging, Labor being the Standard.

A pound, a yard, etc., are definite and unchanging amounts of weight and dimension, respectively. So a pound sterling, a dollar, etc., should be definite and unchanging amounts of value. Not to speak of the endless confusion which fluctuations in measures of weight and length would cause, the fulfillment of agreements upon a given number of pounds or yards of one amount of weight or length in a like number of pounds

or yards of a different amount of weight or length, would entail loss on one side and inequitable gain on the other; and the enforcement of such a contract in such a way would be accounted a manifest injustice. In like manner and degree agreements and contracts in money of one value and their fulfillment and enforcement in money of a different value, are mischievous and unjust. In the case of the money, however, the cause of the resulting mischiefs and injustice is merely less manifest to the masses of the people, being obscured and confounded by them with fluctuations in the value of commodities.

The evils of fluctuations of value in a measure of value are not likely to be overestimated. If one sells on credit his farm, mill, house, or other property, when the money is dear, at a price proportioned to the value of the money, he may be ruined by being repaid at a time when the money is cheap. Though the nominal amount received is the same as that at which the property was sold its value is greatly less. The dollar that would then buy the labor of a man for a whole day will now perhaps buy his labor for but half a day. On the other hand, if one buys on credit when the money is cheap, he may be ruined by the money having become dear at the time when payment is due. The dollar which then cost only half a day's labor now perhaps costs a whole day's labor. It is true there is a chance that one may gain as well lose from fluctuations of value of money; but in all such cases somebody loses. Moreover, the evils resulting from fluctuations of value of money are not restricted to debtors and

creditors. With a money of fluctuating value industry and commerce take on the characteristics of games of chance. The buyer who pays cash down not less than the buyer upon credit, and the mortgagor, puts his fortune upon the hazard of a die. For, to say the price of money appreciates is to say prices of commodities decline. Trade is arrested by a general indisposition to buy goods that will be cheaper to-morrow. As demand falls off the manufacturer curtails or stops production, discharges workmen and returns unemployed capital. "Dull times" begin. Should the individual manufacturer, however, instead of stopping or curtailing production, maintain it, selling to current consumption, on a declining market, he may not get for his goods as many dollars as the raw material and labor in them cost him. Money being dearer he can not buy back his money without paying a higher price for it in goods than he received when he sold it for labor and material. He would have gained in the advanced value of his money if he had kept it in possession idle. On the other hand, should the price of money decline, that is, the prices of commodities rise, buyers will hasten to supply themselves at present prices with the goods needed and that will be dearer to-morrow. Trade and production would thus be stimulated, but the workman would be in distress from diminished purchasing power of wages fixed when money was dear and slow to respond to rising prices of necessaries by a proportionate increase; contracts made for specific sums of dearer money, now weighted with the

double burden— of increased cost in fulfillment, everything being increased in price, and virtually diminished consideration, the money in which it is paid being cheapened,—would prove less remunerative or positively ruinous; and fixed incomes would be practically lessened since they would purchase less than before.

To say of money that it is now of greater and now of less value implies a standard of value. And since, if articles and services indispensable or desirable to us came through acts of mere volition without the intervention of labor, exchange, and hence, exchangeable value, would be unheard of and unknown. it follows that labor is the source, and ultimate standard, of exchangeable value.

The Volume or quantity of a Money, other things the same, Determines its Value.

The amount of weight in a pound, and the amount of length in a yard, have no relation whatever to the number of steelyards and the number of yardsticks, nor to any urgency of demand for them. The amount of value in a pound sterling, or a dollar, depends directly upon the number of such pounds sterling and dollars as compared to the demand for them, and adjusts itself to such number even though it be unknown or alternately and secretly diminished or increased. The reason of this law is not far to seek nor difficult of apprehension: Given, a community or country in which money is plentiful: competition amongst lenders will distribute it among the people. Having money in possession the people generally will the less reluctantly

pay such prices for commodities as may be asked, even though conscious the prices are too high. Prices therefore will gradually and surely rise: that is, the purchasing power—value—of the money will decline. On the other hand, where money is scarce it will be confined in few hands by competition among borrowers, and the tendency will be general among the people to insist on the largest return for every outlay. Those who have little money will so insist in order to save it for their necessities; those who have much, in order to save it to lend at unusually high rates of interest. But a larger return for outlays of money and higher rates of interest is a rise in the value of money.

It has in some quarters been attempted to demonstrate that its volume has no influence on the value of money by showing that prices of commodities have remained as before both under an increased and under a diminished volume of money. One factor in the case, demand, having been left out in such attempts, the conclusion reached in them is invalid. If the demand for money be increased or diminished in the same ratio as its volume is increased or diminished, prices will, of course, remain as before,—a conclusion in harmony with, and incidental to the truth of the general proposition that, The volume of a money, other things the same, determines its value. Dollars or diamonds, if as plentiful as autumn leaves, would be as cheap.

Amenability in a Money to Intelligent Control of its volume essential to make it Stable in value, and so a possible Measure of Value.

We have seen that the value of money depends on

supply and demand—volume or amount and the amount wanted: that if the volume or amount of money remain unchanged while the demand for money continues to increase, as from growth of population, a more and more minute division of labor, (p. 2,) or other cause, ten cents in such money may come to stand for as much value as ten dollars of it formerly stood for. And, *vice versa*, ten dollars may come to stand for no greater value than ten cents formerly stood for. Hence, the volume of a money should be at all times amenable to control by an intelligence acting with a purpose to preserve the value or purchasing power of the money, and therefore increasing the volume when more is wanted, and diminishing it when less is required.

The Volume of a Money of Intrinsic value not amenable to intelligent control.

The volume of a money of intrinsic value is removed from intelligent control, by the inflexibility of the material itself of the money. No urgency of sudden demand for more money could increase the amount of such material, nor, the exigency being passed, could it be diminished. Hence—

The volume of a Money of intrinsic value not being amenable to intelligent control, Intrinsic Value Money can Not be a Measure of Value.

A money which is not amenable to increase and diminution at will, inevitably inflicts a double misfortune—a fluctuation of all prices to a new standard when, and

so often as, the number of exchanges to be made with it is increased or diminished: that is, as demand for it is increased or diminished.

The fluctuation incident to an increased demand for money, (making money dearer), involves a shrinkage of the prices of real property, commodities and stocks of goods, thus entailing a falling market, stagnant trade, diminished or arrested production, discharge of laborers from employment, and wide financial distress and ruin.

The fluctuation incident to a diminished demand for money (making money cheaper), inflicts loss or financial ruin upon persons whose income is fixed; and upon workers for stipulated wages; contractors with engagements unfulfilled, and creditors, since the money paid them under such circumstances has less purchasing power than before.

A money whose value thus inevitably fluctuates, as the value of intrinsic value money does, is not a determinate and unchanging amount of value, and hence it is not a determinate and unchanging amount of "a thing of the same kind as itself": hence it is not, and can not be, a measure of value: (p. 10).

A Money of intrinsic value, as of Gold or Silver, not being a Measure of Value, is unsuited to the Civilized peoples of To-day.

It has been elsewhere herein (p. 9, *et seq.*) shown that just commercial exchanges involve the ascertainment of the respective values of the things exchanged, in order to equalize such values, (equitable commerce being an exchange of equal values), hence, that such values must be measured, and that, therefore, the instrument—money—with which such measurement is made, should be a measure of value.

Further: Intrinsic value money having been shown to be not a measure of value, and inherently incapable of becoming so, it follows that intrinsic value money is not suited to the commerce of the civilized peoples of to-day.

Among specific causes of indefiniteness and fluctuation of the value of intrinsic value money, as of gold and silver, may be named—

1. The element of accident in the quantity of material for such money:

The amount of available material for a money of intrinsic value, as of gold or silver, is evidently accidental since such amount depends on the accident of its discovery and collection from the mine or placer. Hence the volume, hence the value, of the money made of such material, is accidental and variable. It thus appears that while extreme care and exact science are invoked to insure unvarying standards of linear and avoirdupois measurements, which are merely preliminary to the measurement of value, the final measurement of the value itself, is, by the use of intrinsic value money, relegated to *chance!*

2. Increased demand for money, caused by abnormally large commercial transactions; by war, etc.

3. A practically diminished volume of money in a time of panic—much money being then hoarded.

4. Artificial scarcity of money, much of it being monopolized in the control of a comparatively few persons, corporations and associations, who hold it for a rise, that is, in order to cheapen all other property as measured and purchased by it.

In all these cases, and especially in the last, the result is appreciation of the purchasing power of the money: that is, (p. 12), a shrinkage of all other values, evidences of debt excepted, to the loss, distress or financial ruin of manufacturers, producers, traders, laborers and debtors, but to the enrichment of the owners of the money and the evidences of debt (notes, bonds, mortgages, etc.,) thus enhanced in value.

All understand what follows when wheat and corn are monopolized—such prices for wheat and corn, and for the food made from them, as the monopolizers please. So when the materials of money, as gold and silver, are monopolized: such prices for gold and silver, and for the money made from them, as the monopolizers please. The terms, *dear* and *cheap*, applied to money, have the same meaning as when applied to any other thing, viz., *dear*, that a great price must be given; *cheap*, that a small amount will suffice to purchase. When money is dear, therefore, a great price in property, goods, or services must be given for it; and when money is cheap, it may be had for a small amount of property, goods, or services: in the one

case "a dollar will buy a good deal"; in the other case "a dollar will buy but little".

It is thus evident that a government which makes its money of a kind of material of which it can not at all times command possession in substantially unlimited quantity, at inconsiderable cost, increasing or diminishing the volume of the money made of it as demand for money increases or diminishes, thus preserving unchanged its value, necessarily puts the property, wages and industries of its citizens at the mercy of those who control the volume of the currency, and who, therefore can make money dear when they intend to sell it (for property or labor), and cheap when they intend to buy it. And the financial system of any one of the countries bound together by use of a common stock of an intrinsic value money or money material, being diseased, the virus runs through the systems of all of them. Hence, it appears further that a country whose money is a "money of the world" is interminably either in actual financial perturbation or in apprehension of such perturbation, one member or another of so large a family at all times pretty surely being down with one or another of the ailments incident to the use of intrinsic value money.

The public authority, immediately or remotely exercised, under which exclusively money is now issued, claims supervision over, and the power of regulating, measures of weight and dimension and might properly regulate the value of money. In the United States at least the authority to regulate the value of money is

conferred upon Congress by express constitutional provision. And since a delegated power, under our national constitution carries with it all powers essential to the exercise of the delegated power, Congress has constitutional warrant to institute money of such material, and in such a way, that it can regulate its value. As it is impossible, as herein shown, to regulate the value of a money the substance of which is of intrinsic value, as of gold and silver, Congress may and should demonetize all such substances.

Money that would be a Measure of Value Suggested.

The volume, and therefore the value, of a money of paper, issued exclusively by the national government, and with the qualities of legal tender, and receivability for public dues, could be regulated. By withdrawals —by ordinary taxation or by borrowing from the people—out of a redundant currency of such money, and by re-issues and new issues into a deficient one, for current government expenditures, it could be kept of substantially unvarying value, and so a Measure of Value.

The appointment of a controller of the currency with full proximate power to increase and diminish its volume for the sole purpose of preserving its value unchanged, ought to be as much a matter of course as the appointment of a sealer of weights and measures, and the conscientious performance of his duties to come to be esteemed equally a matter of course. The one would perhaps beget the other.

The institution of money of gold and silver has been declared divine. Slaveholding was divine also if the solemn asseverations of its defenders can be relied upon as true. I venture to hope that as other things have felt the improving hands of time and experience so also will money. That an advance from the methods and appliances of other kinds of our ancestors should be made as a matter of course but that in their adoption of a particular kind of instruments of commercial exchange they leaped to perfection at a single bound is unlikely.

To intrinsic value money is conceded a wider credit than that given to credit money. A gold or silver coin would undoubtedly command, or exchange for, value, more or less, in any civilized country though the authority which issued it had been overturned or annihilated. But this is not the whole case as between intrinsic value money and credit money. While there is a liability—remote it may be in the case of a well established government, but still a liability—in receiving credit money, of loss from its becoming depreciated or worthless through the impairment or destruction of the authority which issued it, it is yet economical, portable and convenient, and the obvious principle of regulating its volume with a sole view to keep it of unvarying value being observed, it would be a money well adapted to modern civilized use. On the other hand, an intrinsic value money is of extravagant cost, wasteful, expensive, cumbersome and inconvenient to use, and accidental, fluctuating, and subject to speculative per-

turbation, in value. While therefore, such a money is destitute of every attribute of a sound and honest money for legitimate and equitable exchange at the present day, it is exactly adapted to create and maintain a speculative feeling in commercial transactions and for *providing* opportunities for its gratification. By its use the possession of property is put upon the tenure of the will of dealers in money, legitimate productive and distributive industry are degraded to the rank of incidents of a variable money market, and buying and selling are converted into games of hazard.

The sums diverted from wealth producers through the fluctuations incident to intrinsic value money, and the losses which accrue to them from the interruptions of wealth production due to such fluctuations, together with the waste inseparable from the use of an unnecessarily expensive tool, constitute an onerous tax upon industry. If industry were relieved of that tax it could afford its products at a lower price than the present one and still enjoy a larger remainder after all its bills were paid than it now does. Should the United States anticipate other countries in the adoption of a financial system which would give this relief, it would, while insuring to the enterprise, superintendence and manual labor of its own citizens larger rewards than they now receive, enable them to undersell, in the markets of the world, all the countries adhering to intrinsic value money. Further: Under such circumstances could the costly privileged class systems of government be maintained? Would not the then keener competition of our country compel the giving up of the luxury of kings and courtiers as a necessary and prudential measure of relief of Europe's industrial classes, and inaugurate the reign of the People?

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